



"Improving the quality of life in rural communities"

**Testimony to the Subcommittee on Rural Development, Biotechnology,  
Specialty Crops, and Foreign Agriculture  
Committee on Agriculture  
United States House of Representatives**

**Debra Martin  
Great Lakes Rural Community Assistance Program (RCAP)**

**June 10, 2009**

Thank you, Chairman McIntyre and Ranking Member Conaway, for the opportunity to address the committee. The role of the federal government's USDA Rural Development programs in rural America is critical, and we applaud the committee's efforts to ensure that these programs are working as intended and having a positive impact, particularly in today's economically challenging times.

My name is Debra Martin, and I am the director of the Great Lakes Rural Community Assistance Program (RCAP), based in Ohio and serving the states of Illinois, Indiana, Kentucky, Michigan, Ohio, West Virginia, and Wisconsin. The Great Lakes RCAP is part of the national RCAP network, whose regional service providers help small, typically low-income, rural communities address water, wastewater, and other community development needs. The RCAP network provides training and technical assistance to build the capacity and sustainability of small systems, and to assist small communities with the development of needed water and wastewater facilities. The RCAP network serves over 800 communities every year through funding provided by USDA's Technical Assistance and Training Grant Program under its Water and Waste Disposal Program.



Working with rural communities nationwide, we deal with Rural Development programs and staff on a daily basis. Our primary focus is on infrastructure, so we are intimately familiar with the Water and Waste Disposal program. However, needs in rural communities go well beyond infrastructure, and in an effort to provide more comprehensive programming, our organizations have made extensive use of other Rural Development programs such as Community Facilities, housing programs, the Rural Community Development Initiative program, the Intermediary Relending Program, and others.

The infrastructure needs alone in this country are staggering. The most recent needs surveys by EPA estimate the funding needs in small systems and rural areas at \$34 billion for drinking water and nearly \$69 billion for wastewater over the next 20 years.

Small systems nationwide comprise approximately 83% of all public drinking water systems and 70% of public wastewater facilities, though they account for a much smaller share of the total population served. Small communities face unique challenges in developing, upgrading, and operating their water and wastewater facilities. For example, small utilities must spread their capital and operating costs among fewer customers – including large commercial, industrial, and institutional users – making it impossible to achieve economies of scale found in larger systems.

Customers in small systems pay, on average, three to four times more than their urban counterparts for water and wastewater services, according to EPA data. To cite one example, the Appalachian community of Corning, Ohio, with a population of 593 and a median income of \$27, 868, recently developed a new sewer system. Despite utilizing RCAP assistance to obtain every available source of federal and state grant funding, village residents are paying \$65 per month for their sewer service. Coupled

with a \$45 per month average water bill, community residents are paying nearly 5% of their income for these utilities. The situation in Corning is hardly unique. In fact, it mirrors what is happening in small communities all over the country.

RCAP is committed to educating local officials about the importance of maintaining infrastructure investments, encouraging local responsibility, and ensuring that residents are paying their fair share for these services. RCAP offers training to utility boards and managers on topics such as financial management, budgeting, asset management and rate-setting. However, there is a point at which the cost of projects is simply not affordable to rural residents. Assistance from the federal government is vital to small communities in developing needed infrastructure. Without federal grants and subsidized long-term loan funds, the vast majority of projects in rural America, many of which are only marginally affordable even with these funds, are simply not feasible.

The current credit crisis puts small communities at a more pronounced disadvantage. With credit tightening and state and local government revenues shrinking, infrastructure funding is more competitive. Some state agencies have had difficulty marketing and selling bonds used to capitalize various state funding programs, even those that carry AAA ratings. In such an environment, it can be very difficult for small communities to compete with larger cities, particularly when they are far less likely to have shovel-ready projects.

For many years, USDA Rural Development has served as the "lender of last resort" for rural communities. The USDA's Water and Waste Disposal Loan and Grant Program is one of the few infrastructure programs available exclusively for small communities. Rural Development is also the lead federal agency for improving housing, community facilities, and providing economic opportunity in rural areas. Rural Development programs must be adequately funded if small communities are going to have the

opportunity to develop projects that are critical to public health, the environment, and their future development.

### **Issues and Challenges in Current Rural Development Programming**

In recent years, Rural Development has seen funding for its programs steadily decrease. Since 2003, funding has been reduced by 25% for water and sewer, 28% for rural community facilities, and 33% for rural housing loans and grants (excluding funds made available recently through the ARRA).

In addition, grant funding for water and sewer projects, as a percentage of the overall allocation, declined from 39% in 2003 to 26% as of 2006. As previously noted, grant funds are critical to help defray the enormous costs of infrastructure development. If the trend of reducing the grant-to-loan ratio continues, the program will cease to be a viable option for most small communities, especially those serving low-income populations.

The ARRA funding is critical to meet current needs. However, it presents many challenges, both to communities utilizing the programs and to the agency, in expending the funds in a timely manner.

Rural Development's administrative budget has stagnated in recent years, so the agency has fewer field staff to process loan and grant applications, a particular problem in handling the time-sensitive ARRA funding. From 2007-2008, Ohio's Rural Development office experienced a 73% increase in demand for its housing programs, and a 170% increase in its business programs.

Moreover, the ARRA imposes additional requirements that add to the cost of projects for communities and the administrative time required to track and report on those provisions.

The challenges for small communities in meeting the compressed timelines imposed by ARRA are great. There are numerous time-consuming and labor-intensive steps to the application process, which typically can take communities two years or more to complete. An engineering report and an environmental review are required before the agency begins processing an application. These reports can cost \$30,000-50,000 – a substantial portion of their annual budget. Since there is no guarantee that funding will be available, many communities are reluctant to take this risk. In addition, completing an environmental report at this stage slows the process considerably; it typically takes 3-6 months to complete a review.

There are many more tasks to be completed before funds can be obligated. Once obligation occurs, several additional time-consuming steps must be completed before construction can begin, such as submission of user agreements and plans for connection of customers, securing rights-of-way and easements, completion of engineering design and a review by Rural Development, securing required permits, development of an annual budget.

The RCAP program and the technical assistance it provides serve as a bridge between the agency and communities. RCAP staff have a detailed working knowledge of Rural Development goals, processes, and priorities and can help meet them while serving the needs of small communities. For instance, last week the RCAP program in Ohio, in conjunction with Rural Development, conducted a workshop to reach out to communities and make them aware of additional funding available through the agency and how to access it. This workshop was attended by over 100 people. RCAP assists not only with the applications and every phase of the project development process, but also provides training and technical assistance to projects after construction is

complete, helping small systems understand how to properly manage and operate the system in a financially sustainable manner.

Examples of additional issues with Rural Development programs that need to be corrected in order to maximize their effectiveness include the following:

- The IRS ruling that communities cannot utilize tax-exempt bonds when securing loan guarantees under the Water and Waste Disposal and Community Facilities programs. This negates the favorable interest rate they receive through the program and renders the program ineffective.
- Intermediary Relending Program (IRP) funding, which makes loans to nonprofits that re-lend the funds to local businesses, has declined in recent years, despite the program's proven record of job creation and significant leveraging without a single default.
- The Rural Business Opportunity Grant (RBOG) is funded at such a low level outside its earmarked funds that it wastes the resources of agency staff and the communities that complete the 100+ page application, since 99% of applications go unfunded. This program should either be funded at a higher level or discontinued.
- The Value Added Producer Grant and the Rural Energy for America Program are available to farmers, but applications are only accepted once per year, generally during the busy spring planting season. Program funding should be announced early in the fiscal year so that producers could work on the application during the winter months. The timing of annual appropriations is typically blamed for the delay.

### **Recommendations to assist rural America & improve RD programs**

Solving the problems facing rural communities requires a multi-pronged approach that includes adequate funding, along with steps to ensure that grant funding is available only to the most needy communities, that there is sufficient technical assistance available to ensure that the funds are distributed where they are most needed, and that alternative approaches are considered. Specifically, RCAP offers the following recommendations:

1) Annual appropriations for Rural Development programs need to increase. While it may be unrealistic to expect programs to be funded at ARRA levels, programs should have funding restored to the highest feasible levels. (This includes the IRP and RBOG programs mentioned above.)

2) Improve the grant-to-loan ratio in the Water and Waste Disposal Program. The Farm Bill authorized lower interest rates, which will help make projects more affordable for communities. However, the additional loan subsidy further reduces available grant funding, and many low-income communities simply cannot develop feasible projects without grants.

3) Eliminate the "similar systems rule" in the Water and Waste Disposal Program. Rural Development awards grant funding to systems to subsidize user rates to a "reasonable" level. This generally is based on user rates as a percentage of median household income. However, the similar systems rule is essentially a loophole that allows consideration of the rates paid by systems in the same geographic area, regardless of income. This permits some systems to receive grant funding and maintain rates that are too low, when a low-interest loan would have been affordable. Establishing rates as a percentage of median income is equitable and should be the **sole** means of determining grant funding.



4) Strengthen provisions that require communities to consider regionalization/ collaboration. Too often, these options are given a cursory examination and dismissed because of a lack of support by the community. In order to maximize limited resources, communities need to realistically examine whether operating their own facilities is cost effective. Many Rural Development offices have not forced communities to consider these alternatives because they are not politically popular. Therefore, such a requirement should be part of the law. While there may be legitimate reasons for communities not to choose regionalization, the burden of proof should be on the community.

5) Increase technical assistance funding that will allow RCAP and other providers to keep pace with growing demand. Currently, in Ohio and other Great Lakes RCAP states, there is far more demand for assistance, particularly with new sewer projects, than can be met with existing technical assistance funding. These projects tend to be very time and labor-intensive, as they are typically the smallest and, hence, the most difficult to fund, communities.

In addition to technical assistance for water and wastewater, a broader technical assistance program to help rural communities access funds for community facilities, community planning, and economic development should be created. During the course of our water and wastewater work, we are frequently approached by rural communities to provide these other services because they lack full-time staff or expertise to access funds that might be available to them. In the last two years, we have received over 60 requests for such assistance in the Great Lakes region.

6) Delay the environmental assessment requirement until after the initial application is submitted. As long as the assessment is completed prior to the start of construction, it will meet the requirements of the National Environmental Policy Act.



This would allow the assessment to be completed simultaneously with other requirements – including final engineering design – and would speed the processing of applications.

7) Provide a legislative remedy to the IRS ruling on loan guarantees.

8) Make programs directed to farmers available at appropriate times of the year, or consider moving to a year-round application period.

We thank the Committee for considering our testimony on these issues and thank you for your commitment to meeting the needs of rural America's communities.

Debra Martin, Director  
Great Lakes RCAP  
WSOS Community Action Commission  
P. O. Box 590  
Fremont, OH 43420  
419-334-5117  
dcmartin@wsos.org

